BelAir Energy Corporation

2001 Annual Report

On The Cover

The debossed pattern of lines on the cover depict the fin motif from the 1957 Chevy BelAir automobile.

The fin design found on the actual car was developed to portray continuous movement. The concept of movement conveys the philosophy of growth and the creation of shareholder value at BelAir Energy Corporation.

The Annual Report

Designed, Illustrated and Produced by: Greg McCambley/Pelican Graphic Ltd, Photography by: Brodylo Morrow, and Printing by: Topline Printing Inc.

Annual General Meeting

The annual general meeting of the shareholders of BelAir Energy Corporation will be held on May 16, 2002, at 9:00 a.m. in the Strand Tivoli Room at the Metropolitan Center, 333-4 Avenue, S.W., Calgary, Alberta.

Abbreviations

"bbls"	Barrels of oil or NGLs.
"Bcf"	Billions of cubic feet of natural gas.
"bpd"	Barrels of oil or NGLs per day.
"boe"	Barrel of oil equivalent (natural gas @ 6 Mcf:1 bbl).
"boepd"	Barrel of oil equivalent per day.
"FD&A"	Finding, Developing & Acquisition (costs).
"GJ"	Gigajoule.
"Mbbls"	Thousands of barrels.
"Mboe"	Thousands of barrels of oil equivalent.
"Mcf"	One thousand cubic feet of natural gas.
"Mcf/d"	One thousand cubic feet of natural gas per day.
"MMcf"	One million cubic feet of natural gas.
"MMcf/d"	One million cubic feet of natural gas per day.
"Mstb"	Thousands of stock tank barrels of oil.
"NGLs"	Natural gas liquids.
"stb"	Stock tank barrels of oil (oil volume at 60°F and 14.65 pounds per square inch absolute).
"W.I."	Working interest.

BelAir ENERGY CORPORATION

Exploring for Natural Gas

Contents

President's Report to Shareholders

Year 2001

The year 2001 was a mixed year for BelAir. Production grew by 40% to an average of 2490 boepd from 1780 boepd during 2000. We were successful in implementing Phase 3 of our business plan - full cycle exploration coupled with strategic acquisitions.

The year also included many challenges – the most surprising one being the dramatic decline in natural gas prices from all time high levels at the beginning of the year to very low levels by year-end. Even though our production grew substantially over the year, our cash flow declined as natural gas prices declined. Production of 1,842 barrels of oil equivalent per day ("boepd') in January generated gross revenue of 5.7 million dollars for the month. By December, our production had grown by 59% to 2,926 boepd but gross revenues fell by 68% to 1.8 million dollars for the month. Our challenge during the latter half of the year was to continue to grow while protecting our balance sheet.

During this challenging year, we fully implemented Phase 3 of our business plan – growth through a full cycle exploration strategy. We drilled 37 (16.1 net) wells; as many wells as we had drilled during 1997, 1998, 1999 and 2000 combined. Our success rate was excellent – 78% (82% net) resulting in 29 (13.2 net) gas wells.

Review of Our Five Year Business Plan for Growth

Despite the very volatile business environment over the last five years, we have continued to grow by sticking to the basic principles of our five-year business plan that we implemented in 1997.

Phase 1 of the plan was to create a solid base of reserves, production and cash flow through acquisitions. We successfully completed this portion of our business plan with asset acquisitions and the corporate acquisitions of Windstar Energy Ltd. in 1997 and Granger Energy Corp. in 1998. We acquired production at approximately $16,000 per daily barrel.

During Phase 2, we exploited the upside potential of our acquisitions in addition to making strategic acquisitions. For example, we increased production at our Penhold properties from 325 boepd at the time of acquisition in 2000 to its present productivity of over 800 boepd. We acquired Crown Joule Exploration Ltd. in 2000 with the strategic purpose of increasing our exposure to natural gas. We accomplished this goal just in time to take advantage of very high gas prices during the latter part of 2000 and the first half of 2001. In just a year and a half since acquiring Crown Joule, we have already recouped 30% of the original purchase price plus all the additional capital that we have spent on Crown Joule properties.

The Crown Joule acquisition included the Doris gas producing area in central Alberta. At the time of acquisition, this property was producing 860 boepd net to BelAir. By the spring of 2001, we had increased production to over 1000 boepd through drilling. The production decline rates, however, appeared to be abnormal. BelAir was not the operator of the production and could not implement its ideas to arrest the declines. To take control of the situation we acquired additional ownership of the property in mid 2001 and became the operator. We took action to arrest the declines and production rates have been increasing over the last four months without additional drilling. We are presently producing 900 boepd net to BelAir.

We implemented Phase 3 of our business plan – growth through full cycle exploration in late 2000. We drilled 37 wells during 2001. The prospects that we drilled during the

year were a combination of development exploitation wells and low risk exploration wells. This phase of our business plan also includes making strategic acquisitions. In December 2001, we completed the takeover of Tikal Resources Corp. Strategically, this acquisition provided us with a number of competitive advantages – continued focus on natural gas, exposure to many exploration prospects that Tikal had developed but had not yet implemented and exposure to a high impact exploration prospects in northeastern British Columbia and northwestern Alberta.

2002 and Beyond - High Impact Exploration for Natural Gas

We have built a strong base from which to grow – solid reserves base with a reserve life index of ten years and a large undeveloped land base approaching two hundred thousand net acres. Growth will be fostered through the continuation of our dual strategy - full cycle exploration coupled with strategic acquisitions.

During 2001, the first year of the implementation of our full cycle exploration strategy, we generated a number of medium to high impact exploration prospects. With the acquisition of Tikal, the inventory of our exploration prospects has expanded significantly and will take us through 2002 and 2003.

A number of these prospects are high risk, high reward in nature. Having built a strong reserves and production base, we can now increase our risk profile by exploring for higher risk, higher reward prospects. The strategic implication of changing our risk/reward profile is a move away from the lower risk/lower reward prospects of eastern and southern Alberta to drill in western and northern Alberta and northeastern British Columbia. Success in any one of our high reward prospects, such as the Keg River prospects in northeastern British Columbia, Chinchaga in northwestern Alberta, and Peco or Lochend in western Alberta, will have a major impact on the growth of BelAir.

Our capital program for 2002 will be twelve million dollars, not including acquisitions. Approximately eight million dollars of our budget will be spent on drilling, equipping and tie-ins. We plan to drill twenty wells. The remainder will be spent on seismic and land as we continue to build our prospect inventory.

Most of our prospects focus on exploration and development of natural gas reserves and production. Although natural gas prices are weak at this time, we see prices firming up through 2002. The longer term fundamentals for increasing demand and prices remain sound. With low gas prices and the rebound in North American markets, demand will increase through 2002. The decrease in 2002 capital budgets for drilling coupled with production decline rates will result in decreasing supply over the year. These supply and demand dynamics will reduce the current surplus of natural gas to a more balanced situation by the coming winter. A rebound in natural gas prices is expected.

We are entering the year with a net debt level of over thirty million dollars, a debt level that is outside our traditional debt to cash flow ratio. To rectify the situation, we are embarking on a rationalization of some of our non-core and non-producing assets. Our last sale of non-core assets occurred in 2000 after the acquisition of Crown Joule. This routine rationalization of our non-core assets provided us a focus on our four core producing areas.

Corporate Governance

We continue to stress the importance of proper and effective corporate governance of our company. Last year, we detailed our commitment to sound corporate governance practices. This year, we have built on this commitment. The Board of Directors has been expanded to eight, six of which are independent Directors. The various committees on the Board are comprised of a majority of independent Directors. This year, we expanded the role of the Audit Committee to become the Audit and Reserves Committee and its responsibilities now include overseeing the evaluation of our reserves. We have also expanded the mandate of the Compensation Committee to include the responsibility for corporate governance. The committee has been renamed the Compensation and Corporate Governance Committee.

This year, we added and welcome the contribution of Mr. Bob Phillips to our Board. Mr. Phillips' extensive experience in the petroleum and other industries will provide our Board with additional breadth.

Employee, Director and Shareholder Support

Our growth this year and every year has only been possible through the hard work and dedication of our employees, key contractors and our Directors. During these very volatile business cycles, the advice and guidance of our experienced Directors is of utmost importance. The challenges that we face in the future will be successfully met by the imagination and enthusiasm of our employees. The future therefore looks very bright for BelAir and our shareholders.

Victor Luhowy

Victor M. Luhowy
President and CEO

March 1, 2002

Management Team

Management Team (l-r): Ken D. MacRitchie, VP Finance & CFO; Wendy M. Irvine, Executive Assistant; Andrew I. Burnett, VP Exploration; Victor M. Luhowy, CEO & President; Wayne R. Wilson, VP Corporate Development; Kenneth T.A. Skea, VP Production; Kurt D. Miles, VP Land.

Exploring for Natural Gas

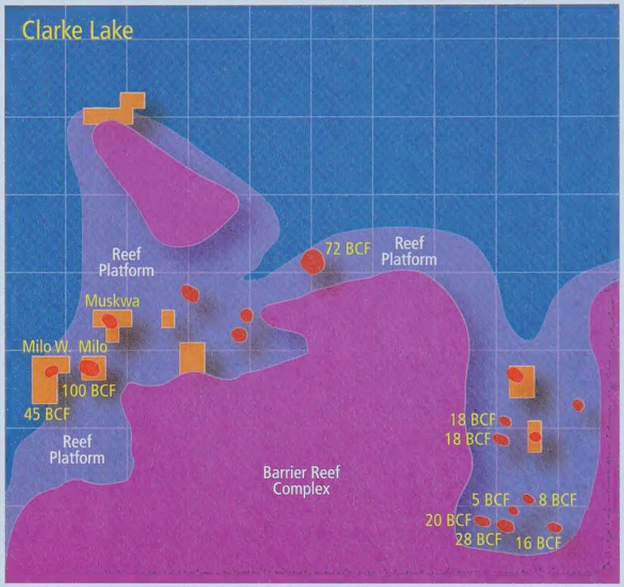
BelAir Core Producing Areas BelAir Exploration Prospects

With a solid base of reserves and production, BelAir is moving into a new exploration phase of drilling higher risk/higher reward prospects.

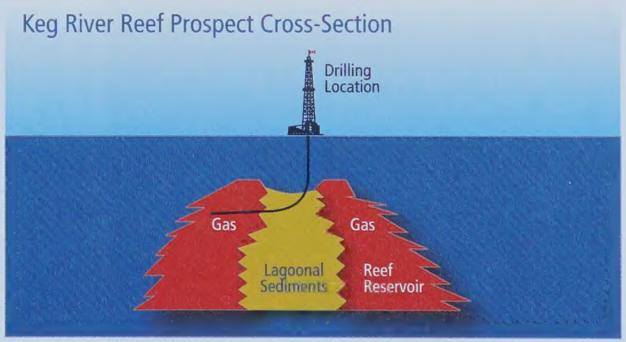
The focus of the exploration program is natural gas. The prospects are located in a corridor extending from western Alberta through northwestern Alberta and into northeastern British Columbia

Clarke Lake, B.C.:

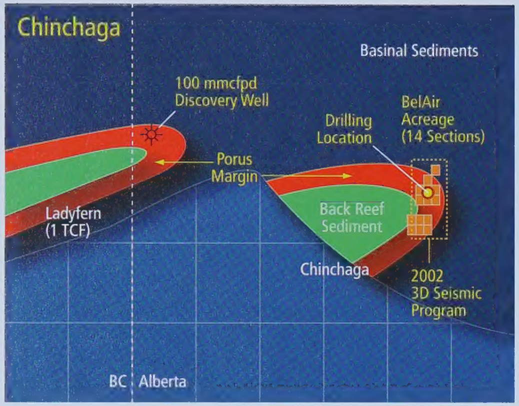
- Keg River reef prospect
- Potential reserves:
  10 to 40 BCF per well
- Expected production:
  5 to 25 mmcf/d per well
- BelAir working interest
  is 10 – 100%



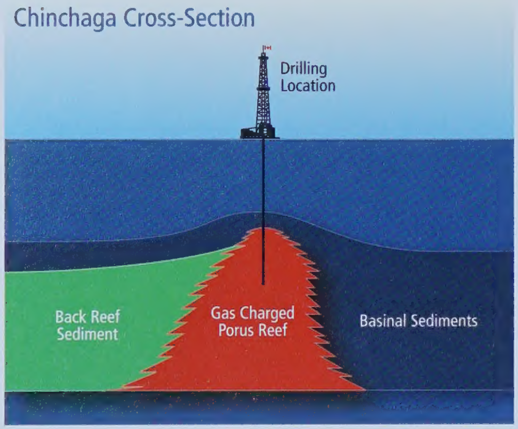
BelAir Land



Exploring for Natural Gas



BelAir Land

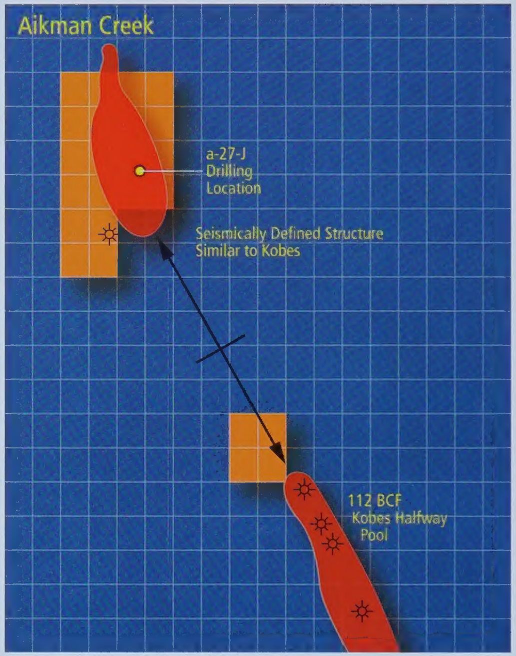


Chinchaga, Alberta (Ladyfern Analogy):

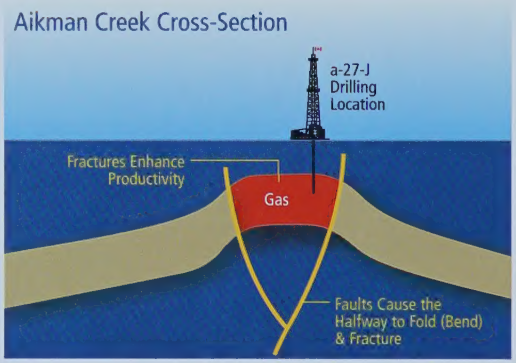
- Slave Point reef prospect
- Potential reserves:
  20 to 30 BCF per well
- Expected production:
  15 to 20 mmcf/d per well
- BelAir working interest is 30%

Aikman Creek (Kobes), B.C.:

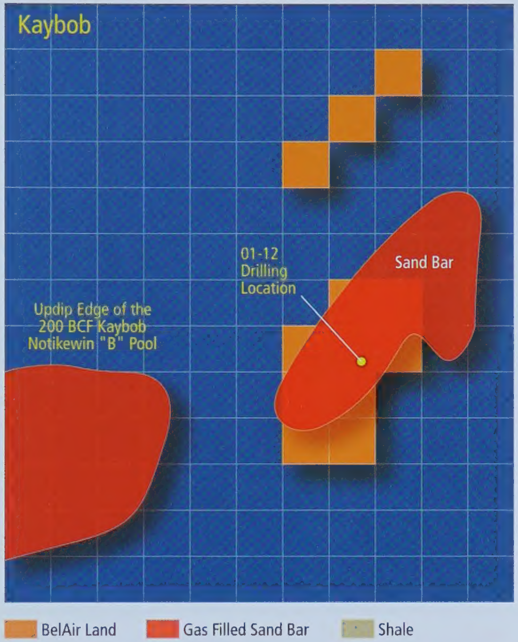
- Halfway sand "structural" prospect defined by 2D seismic
- Potential reserves:
  5 to 10 BCF per well
- Expected production:
  4 to 6 mmcf/d per well
- BelAir working interest is 50%

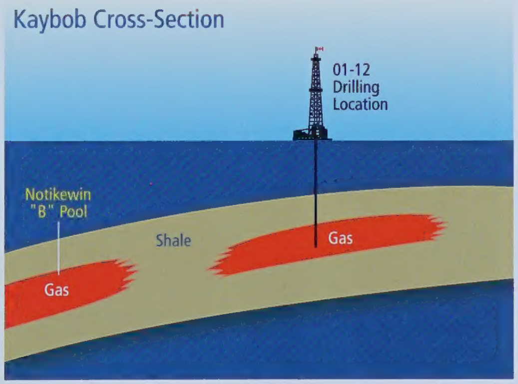


BelAir Land



Exploring for Natural Gas



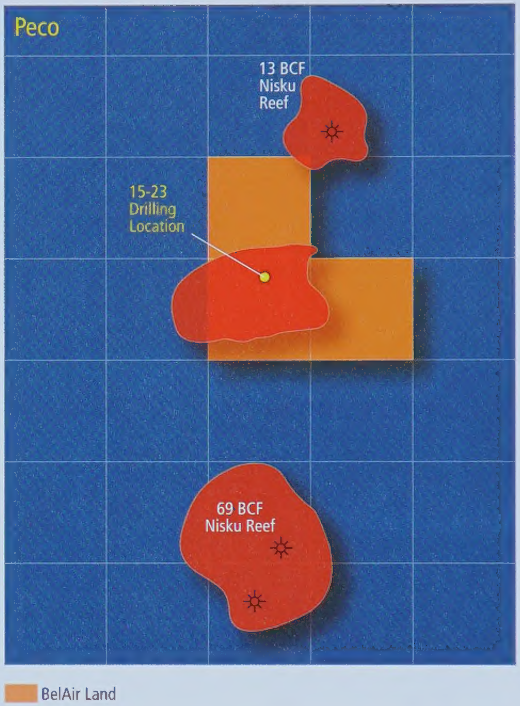


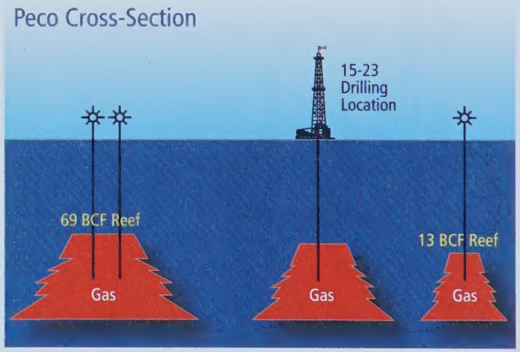
Kaybob, Alberta:

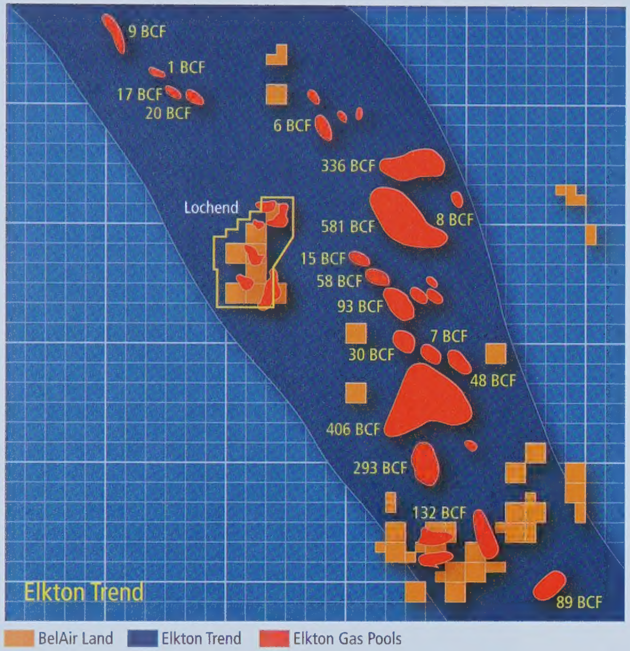
- Notikewin sand prospect with extensive development drilling potential
- Potential reserves: 10 to 15 BCF total prospect
- Expected production: 10 to 15 mmcf/d total prospect
- BelAir working interest is 100%

Peco (West Pembina), Alberta:

- Nisku reefs defined by 3D seismic (entire area is covered by 3D seismic)
- Potential reserves: 15 to 65 BCF total prospect
- Expected production: 5 to 20 mmcf/d per well
- BelAir working interest is 50%



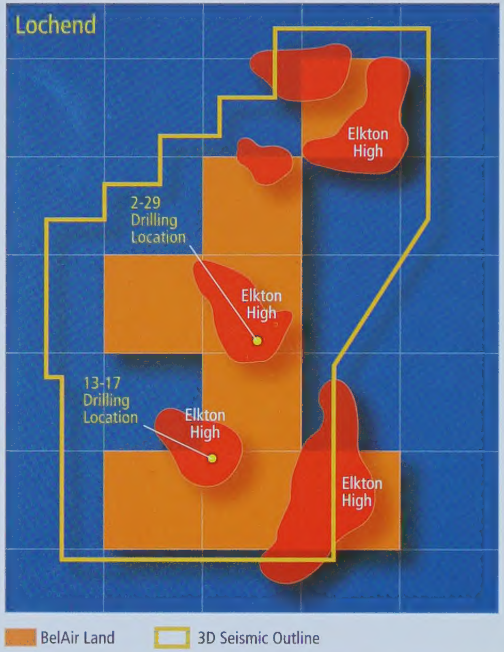


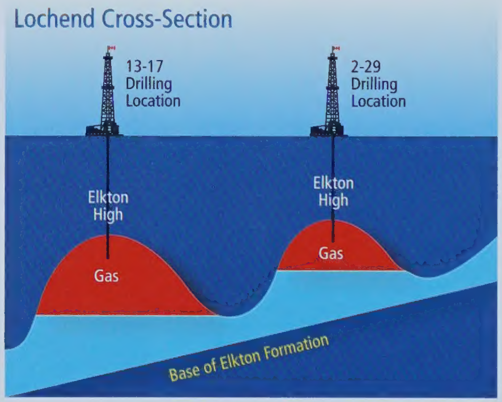


Exploring for Natural Gas

Lochend (Caroline), Alberta:

- Elkton erosional highs identified on 3D seismic
- Expected reserves: 5 to 25 BCF per well
- Expected production: 3 to 7 mmcf/d per well
- BelAir working interest is 65%

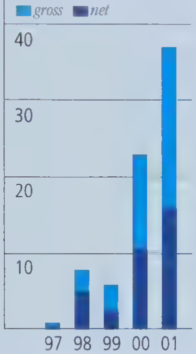




Drilling and Land Review

Drilling Activity

number of wells



Drilling

In 2001, BelAir drilled almost as many wells as we had drilled in the previous four years.

	2001		2000		1999		1998		1997	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Natural gas	29.0	13.2	15.0	7.4	1.0	0.8	2.0	1.0	1.0	0.2
Crude Oil	0	0	3.0	0.9	1.0	0.0	4.0	3.5	0.0	0.0
Dry and Abandoned	8.0	2.9	5.0	2.4	4.0	1.8	2.0	0.6	0.0	0.0
Total	37.0	16.1	23.0	10.7	6.0	2.6	8.0	5.2	1.0	0.2
Success Rate	78%	82%	78%	78%	33%	33%	75%	88%	100%	100%

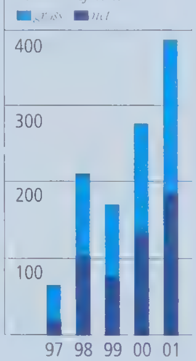
Undeveloped Lands

A strong position in undeveloped land is an important factor in the future growth of an oil and gas company. BelAir's exploration and development program is dependent upon its land position. At the end of 2001, BelAir's undeveloped land position was 186,000 acres as detailed below:

	2001		W.I.	2000		W.I	1999		W.I.	1998		W.I.
(In thousands of acres)	Gross	Net	%	Gross	Net	%	Gross	Net	%	Gross	Net	%
Alberta	306.2	144.5	47	257.9	120.5	47	129.0	49.2	38	163.6	72.2	44
British Columbia	33.8	6.0	18	3.8	.4	11	5.7	1.7	19	5.7	1.1	19
Saskatchewan	46.2	35.6	77	13.6	13.6	100	31.8	25.5	80	37.5	29.3	78
Manitoba	–	–	–	0.5	0.1	20	3.6	0.7	18	4.7	1.0	21
Total	386.2	186.1	48	275.8	134.6	49	170.2	76.5	45	211.6	103.6	49

Undeveloped Lands

thousands of acres

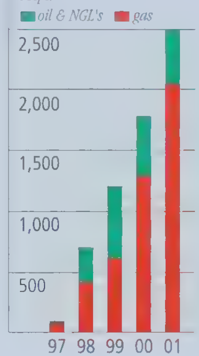


Production and Operations Review

BelAir Core Producing Areas   BelAir Exploration Prospects

Production 6:1

boepd



Principal Producing Areas

Average production for the month of December 2001 for the top 6 principal producing areas, including the properties acquired in Tikal, accounted for 80% of BelAir's production.

Area	Operated/ Non-Operated	Gas (Mcf/d)	NGL's bbl/d	Oil bbl/d	Equivalent 6:1(boepd)
Doris, AB	Op	5,072	21	0	867
Penhold, AB	Op	3,126	140	79	747
Clarke Lake, B.C.	Op/Non-Op	1,935	0	0	323
Turin, AB	Op	543	0	71	162
Battle Creek, SK	Op	0	0	93	93
Red Willow, AB	Op	747	2	0	127
Top 6 Properties:		11,458	164	243	2,317
Other Properties:		2,283	49	179	609
Total		13,741	213	422	2,926

Historical Production

	2001	2000	1999	1998	1997
Production (boepd @ 6:1)	2,492	1,778	1,202	701	95

BelAir Teams

Corporate Team (l-r): Ken D. MacRitchie, VP Finance & CFO; Victor M. Luhowy, CEO & President; Cindy Samoil, Coordinator, Investor Relations; Wendy M. Irvine, Executive Assistant.

Exploration & Land Teams (l-r): Andrew I. Burnett, VP Exploration; John N. Charuk, Senior Landman; Kurt D. Miles, VP Land; Joanne Bunz, Geologist; Jan Knytl, Geologist.

Production Team (l-r): Sue Kowalchuk, Production Technician; Steve Smithinsky, Operations Manager; Kathy Campbell, Engineering Technologist; Erich Regner, Field Superintendent; Kenneth T.A. Skea, VP Production.

Accounting Team (l-r): Nicki Arnault, Finance Accountant; Cindi Rosenau, Intermediate Accountant; Wayne R. Wilson, VP Corporate Development; Maxine Bruce, Accounting Manager.

Management's Discussion and Analysis

Managements' Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with the financial statements contained in this annual report.

Highlights

- Average daily production increased by 1.4 times to 2,492 boepd in 2001 from 1,778 boepd in 2000.
- 2001 exit production rate of 2,926 boepd.
- Cash flow increased to $13.6 million in 2001 from $12.3 million in 2000, representing cash flow of $0.89 per weighted average share.
- Earnings for the year were $3.3 million compared to $4.7 million in 2000, representing earnings of $0.21 per share.
- Acquired Tikal Resources Corp., bringing into BelAir the new natural gas exploration and production area of Clarke Lake in northeastern British Columbia. BelAir remains predominantly a natural gas producer (82%).
- Drilled 37 gross (16.1 net) wells resulting in 29 gross (13.2 net) natural gas wells for a success ratio of 78% (82% net).
- Increased proved reserves by 3.8 million boe, replacing production of 0.9 million boe by 4.2 times

Operating Income

(in thousands of dollars except boe numbers)	2001	2000	1999	1998	1997
Petroleum and Natural Gas Sales	$ 31,188	$23,610	$8,970	$3,670	$480
Royalties	(7,379)	(4,705)	(1,945)	(772)	(85)
Production Expenses	(7,410)	(4,184)	(2,400)	(1,314)	(107)
Operating Income	$ 16,399	$14,721	$4,625	$1,584	$288
Average Production (boepd @ 6:1)	2,492	1,778	1,202	701	95

Operating Netbacks

	2001	2000	1999	1998	1997
Natural Gas ($/mcf)	$ 5.77	$5.86	$2.76	$1.97	$2.05
Crude Oil ($/bbl)	$ 33.07	$39.38	$25.26	$19.30	$16.28
NGLs ($/bbl)	$ 32.58	$38.48	$17.97	$13.48	$23.16
Weighted average sales price ($/boe)	$ 34.29	$36.27	$20.43	$14.34	$13.89
Royalties ($/boe)	$ (8.11)	($7.23)	($4.43)	($3.02)	($2.47)
Production Expenses ($/boe)	$ (8.15)	($6.43)	($5.47)	($5.13)	($3.10)
Operating Netback ($/boe)	$ 18.03	$22.61	$10.53	$6.19	$8.32

Reserves

BelAir's natural gas, natural gas liquids (NGLs) and crude oil reserves have been evaluated as at January 1, 2002 (the "Report") by the independent engineering evaluation firm of Ashton Jenkins Mann ("AJM").

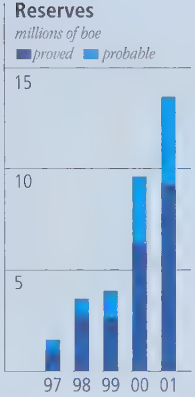
The properties were evaluated by AJM on a reserve and economic forecast basis in accordance with National Policy 2-B (Guide for Engineers and Geologists Submitting Oil and Gas Reports to Canadian Provincial Securities Administrators) definitions. The evaluators of AJM are qualified professional engineers and geologists and are independent of BelAir.

AJM has no responsibility to update the Report for events and circumstances occurring subsequent to the date of their report.

Review of Reserves by the Board of Directors

BelAir's Board of Directors has been fully informed on management's discussions with AJM with regard to the scope of the Report, the meetings held with management of BelAir and the risk areas in the Report.

The Board of Directors has conducted certain additional due diligence in conjunction with its review of BelAir's reserves for the year ended December 31, 2001. The Board of Directors, through the Audit and Reserves Committee, met independently with AJM to receive the Report and was satisfied with the process that had been used in the preparation of the Report.



Summary of 2001 Reserves

In 2001, BelAir replaced the 909 Mboe of reserves produced over the year and added an additional 3,405 Mboe of established reserves.

The volumes and present values of BelAir's petroleum and natural gas reserves have been evaluated as at December 31, 2001, in the Report. The reserve volumes presented in the following tables represent an increase of 46% in proved reserves from 6,263 Mboe in 2000 to 9,155 Mboe in 2001, while established reserves increased by 43% from 7,934 Mboe to 11,333 Mboe during the same period.

The replacement ratio of proved reserves is 4.2 times and 4.8 times for established reserves for 2001. Of the established reserves added, 72% were natural gas and 28% were oil and NGLs.

The Report estimates additional capital of $3.9 million will be required to bring proved undeveloped reserves into production plus an additional $2.7 million to bring probable reserves into production.

Based on an average production rate of 2,492 boepd in 2001, the reserve life index is 10.1 years for proved reserves and 12.5 years for established reserves. BelAir's objective in 2001 was to optimize its reserves by bringing into production much of its proved undeveloped and probable reserves while increasing the reserve life index.

The present value of reserves is based on estimates of annual reserves production and related prices and costs including additional required capital expenditures.

The following prices were used to calculate the reserves value:

	2002	2003	2004	2005	2006
Crude oil *(US$ /bbl.)	$20.00	$20.40	$20.81	$21.23	$21.65
Natural gas **(C$/MMBTU)	$3.85	$4.10	$4.35	$4.60	$4.75

*WTI
**AECO Hub

Summary of Reserves

BelAir's working interest share of reserves before royalties and the present value of those reserves are as follows:

	Natural Gas Bcf	Crude Oil Mstb	NGL's Mstb	Total Mboe (6:1)	Present Value[1] (in millions of dollars) Before Income Taxes Using Escalated Prices, Discount Rates 0%	10%	15%	20%
Proved Developed	30.5	1,007	414	6,500	$93.8	$58.8	$50.3	$44.2
Proved Undeveloped	14.6	66	157	2,655	$39.8	$24.3	$19.8	$16.5
Total Proved	45.1	1,073	571	9,155	$133.6	$83.1	$70.1	$60.7
Probable (Unrisked)	21.4	541	238	4,356	$80.1	$33.4	$24.7	$19.1
Total Proved+Probable	66.5	1,614	809	13,511	$213.7	$116.5	$94.8	$79.8

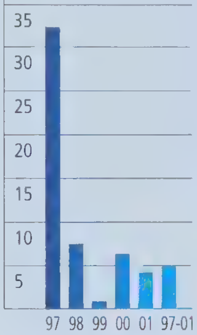
1. *The values shown may not necessarily be the fair market value of reserves.*

The year-to-year reconciliation of reserves and FD&A costs are as follows:

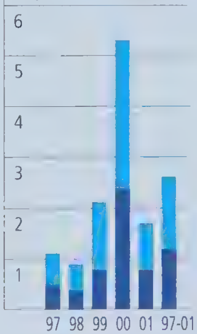
	Proved Mboe[2]	Proved+ Probable Mboe[2]	Established[1] Mboe[2]	Capital Expenditures $millions	FD&A Costs Proved Per boe	FD&A Costs Established Per boe	Rolling Average FD&A Costs Proved Per boe	Rolling Average FD&A Costs Established Per boe
Reserves December 31, 1996	0	0	0					
Net Reserves Additions	1,117	1,617	1,369	$6.5	$5.79	$4.73	$5.79	$4.73
1997 Production	(35)	(35)	(35)					
Reserves December 31, 1997	1,082	1,582	1,334					
Reserves December 31, 1997	1,082	1,582	1,334					
Net Reserves Additions	1,926	2,258	2,090	$12.4	$6.44	$5.93	$6.20	$5.46
1998 Production	(256)	(256)	(256)					
Reserves December 31, 1998	2,752	3,584	3,168					
Reserves December 31, 1998	2,752	3,584	3,168					
Net Reserves Additions	423	938	680	$4.0	$9.45	$5.88	$6.60	$5.53
1999 Production	(439)	(439)	(439)					
Reserves December 31, 1999	2,736	4,083	3,409					
Reserves December 31, 1999	2,736	4,083	3,409					
Net Reserves Additions	4,178	6,174	5,176	$33.6	$8.04	$6.49	$7.39	$6.06
2000 Production	(651)	(651)	(651)					
Reserves December 31, 2000	6,263	9,606	7,934					
Reserves December 31, 2000	6,263	9,606	7,934					
Net Reserves Additions	3,801	4,814	4,308	$70.2	$18.47	$16.30	$11.07	$9.30
2001 Production	(909)	(909)	(909)					
Reserves December 31, 2001	9,155	13,511	11,333					

1. *Established reserves are proved plus half of probable reserves.*
2. *Natural gas converted to boe at 6:1.*

Reserves Replacement Ratio
reserve additions/production of proved reserves



Recycle Ratio
Ratio
proved *established*



Reserves Replacement Ratio

	1997-2001 Mboe	2001 Mboe	2000 Mboe	1999 Mboe	1998 Mboe	1997 Mboe
Proved Reserves						
Production	2,290	909	651	439	256	35
Reserve Additions	11,450	3,806	4,178	423	1,926	1,117
Replacement Ratio	5.0	4.2	6.4	1.0	7.5	32.3
Established Reserves						
Reserve Additions	13,623	4,314	5,170	680	2,090	1,369
Replacement Ratio	6.0	4.8	7.9	1.5	8.2	39.1

Recycle Ratio

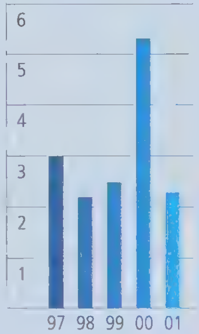
	1997-2001	2001	2000	1999	1998	1997
Cash Flow from Operations ($/boe)	$ 13.27	$ 15.01	$ 18.8[illegible]	$ 7.4[illegible]	$ 2.8[illegible]	$ 3.[illegible]7
Proved FD&A costs ($/boe)	$ 11.07	$ 18.47	$ 8.04	$ 9.45	$ 6.44	$ 5.79
Proved Recycle Ratio	1.2	0.8	2.4	0.8	0.4	0.5
Established FD&A costs ($/boe)	$ 9.30	$ 16.30	$ 6.49	$ 5.88	$ 5.93	$ 4.73
Established Recycle Ratio	1.4	0.9	2.9	1.3	0.5	0.6

Net Asset Value

(In millions of dollars)

	2001		2000		1999		1998		1997	
Discount Factor	10%	15%	10%	15%	10%	15%	10%	15%	10%	15%
Proved Reserves	$ 83.1	$ 70.1	$ 76.6	$ 69.0	$ 16.4	$ 14.4	$ 12.8	$ 10.9	6.3	5.4
Probable Reserves (50%)	16.7	12.3	13.6	11.2	3.7	3.1	1.9	1.5	0.6	0.5
Established Reserves	99.8	82.4	90.2	80.2	20.1	17.5	14.7	12.4	6.9	5.9
Undeveloped land	11.8	11.8	6.8	6.8	3.8	3.8	5.2	5.2	1.0	1.0
Working Capital surplus (deficiency)	(0.5)	(0.5)	(0.5)	(0.5)	0.1	0.1	(0.9)	(0.9)	0.3	0.3
Long term debt	(30.5)	(30.5)	(10.5)	(10.5)	(3.8)	(3.8)	(3.7)	(3.7)	(0.6)	(0.6)
Net asset value	$ 80.6	$ 63.2	$ 86.0	$ 76.0	$ 20.2	$ 17.6	$ 15.3	$ 13.0	7.6	6.6
Common shares outstanding at year end (millions of shares)	26.6	26.6	14.3	14.3	7.1	7.1	5.9	5.9	2.2	2.2
Net asset value per share	$ 3.03	$ 2.38	$ 6.01	$ 5.31	$ 2.85	$ 2.48	$ 2.59	$ 2.20	$ 3.45	$ 3.00

Net Asset Value (PV 15%)



Belair

Operations

The following is a comparison of key operational statistics for 2001, 2000, 1999, 1998 and 1997:

Operating Statistics	2001	% change	2000	% change	1999	% change	1998	% change	1997
Sales									
Gas (mcf/d)	12,198	59%	7,687	112%	3,632	48%	2,462	448%	449
Oil (bbls/d)	282	(26)%	382	(27)%	525	140%	219	2,220%	9
NGLs (bbls/d)	177	54%	115	59%	72	–	72	589%	10
Total boe/d (6:1)	2,492	40%	1,778	48%	1,203	71%	701	640%	95
Prices									
Gas ($/mcf)	$5.77	(2)%	$5.86	112%	$2.76	40%	$1.97	(4)%	$2.05
Oil ($/bbl.)	$33.07	(16)%	$39.38	56%	$25.26	31%	$19.30	19%	$16.28
NGLs ($/bbl.)	$32.58	(15)%	$38.48	114%	$17.97	33%	$13.48	(42)%	$23.16
$/boe (1)	$34.29	(5)%	$36.27	78%	$20.45	42%	$14.34	3%	$13.89
Financial per boe(1)									
Oil and Gas Revenue	$34.29	(5)%	$36.27	78%	$20.43	42%	$14.34	3%	$13.88
Royalties Expense	$8.11	12%	$7.23	63%	$4.43	47%	$3.02	22%	$2.47
Operating Expense	$8.15	27%	$6.43	18%	$5.47	7%	$5.13	65%	$3.10
Netback	$18.03	(21)%	$22.61	115%	$10.53	70%	$6.19	(26)%	$8.32
General & Administrative Expense	$2.38	3%	$2.32	(18)%	$2.83	(11)%	$3.17	(37)%	$5.05
Interest Expense	$0.88	(43)%	$1.55	109%	$0.74	28%	$0.58	41%	$0.41
Corporate Tax Expense	$0.16	(43)%	$0.28	–	–	–	–		
Cash Flow from Oil and Natural Gas Operations	$14.61	(16)%	18.46	165%	$6.96	185%	$2.44	(15)%	$2.86
Other Income (net)	$0.40	(3)%	$0.41	(24)%	$0.53	17%	$0.45	116%	$0.21
Cash Flow	$15.01	(21)%	$18.87	155%	$7.49	159%	$2.89	(6)%	3.07
Depletion, Depreciation Expense	$7.45	21%	$6.14	28%	$4.80	(68)%	$14.90(2)	248%	$4.28
Site Restoration Expense	$0.44	69%	$0.26	(33)%	$0.39	34%	$0.28	(3)%	$0.30
Non Cash Gain			–	–	$0.23	–	–		
Future Income Taxes	$3.53	(33)%	$5.20	–	–	–	–		
Net Income	$3.59	(50)%	$7.27	187%	$2.53	118%	($12.29)	(715)%	($1.51)

1. Natural gas conversion to boe at 6:1.
2. Includes ceiling test write down of $9.77/boe.

Shares

Weighted Avg. Outstanding	15,379,332	42%	10,848,205	81%	5,986,508	91%	3,142,231	600%	449,315
Weighted Avg. Diluted	15,825,227	44%	10,968,436	65%	6,643,165	80%	3,691,438	550%	569,044
Basic Outstanding at year end	26,586,999	85%	14,335,750	102%	7,088,659	21%	5,872,144	169%	2,184,621
Cash Flow per share (basic)	$0.89	(21)%	$1.13	113%	$0.53	121%	$0.24	–	$0.24
Cash Flow per share (diluted)	$0.86	(23)%	$1.12	133%	$0.48	140%	$0.20	5%	$0.19
Earnings per share (basic)	$0.21	(52)%	$0.44	159%	$0.17	117%	($1.00)	(900)%	($0.10)
Earnings per share (diluted)	$0.21	(51)%	$0.43	187%	$0.15	118%	($0.85)	(844)%	($0.09)

Oil and Gas Revenue

Revenue from petroleum and natural gas sales in 2001 was affected by a 5% decrease in the blended average price of oil, NGLs and natural gas in 2001 compared to 2000. Blended commodity prices averaged $34.29 per boe in 2001, compared to $36.27 per boe in 2000. The decrease in oil and natural gas prices in 2001 was particularly severe in the fourth quarter. Average prices in the fourth quarter of 2001 were 60% lower than in the fourth quarter of 2000. During the fourth quarter of 2001, BelAir's average natural gas price was $3.28 per mcf and oil prices averaged $23.10 per barrel for a blended commodity price of $20.08 per boe, compared to $8.63 per mcf and $41.81 per barrel for a blended commodity price of $50.09 per boe in the fourth quarter of 2000.

Revenues in 2001 were derived 82% from natural gas sales, 11% from crude oil sales and 7% per cent from NGLs sales.

Royalties

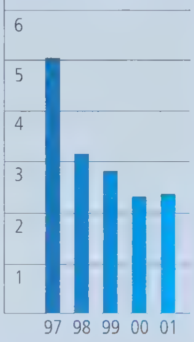
Crown royalties are calculated on a sliding scale based on price and production rates. Higher commodity prices and high production rates result in higher royalty rates. Royalties associated with product revenues amounted to $7.4 million or $8.11 per boe in 2001 compared to $4.7 million or $7.23 per boe in 2000. Royalties as a percentage of revenue in 2001 increased to 24% from 20% in 2000.

Operating Expenses

Operating expenses increased 27% to $8.15 per boe in 2001 compared to $6.43 per boe in 2000. In 2001, BelAir experienced higher per unit operating costs associated with the processing of natural gas as BelAir increased the proportion of natural gas in its total production. In 2002, BelAir has targeted the disposition of non-core properties that have low netbacks as a result of high royalties and operating costs. This is part of a program by BelAir to reduce operating costs on a property by property basis. BelAir continues to pursue initiatives to lower operating costs on a boe basis not only by spreading out fixed costs over greater production but also by reducing unit costs of processing natural gas.

General and Aministrative Expense

dollars per boe



Other Income

Other income for the year amounted to $359,287 in 2001 compared to $264,497, an increase of 36% over 2000. Other income is primarily earned by processing and transporting third party products using BelAir facilities, and from overriding royalties.

General and Administrative Expense

General and Administrative ("G&A") costs on a unit of production basis stayed essentially the same at $2.38 per boe in 2001 compared to $2.32 per boe in 2000. BelAir capitalizes certain G&A costs, including salaries that are directly related to its exploration effort. Capitalized G&A expense in 2001 amounted to $261,367 or 12% of total G&A costs. In 2000, BelAir capitalized $147,365 or 10% of its G&A costs. BelAir expects to capitalize 15% of its G&A costs in 2002.

Interest and Long Term Debt

BelAir reduced the amount of interest expense in 2001 by 20% from 2000. While the average debt outstanding was greater in 2001 than 2000, interest rates declined substantially from the beginning of 2001 to the end of the year.

In 2001, bank prime rates decreased 350 basis points from 7.5% to 4.0%. During this period, BelAir reduced the cost of carrying its debt by issuing short-term bankers acceptances and taking advantage of each reduction in interest rates.

BelAir has credit facilities with the National Bank of Canada consisting of a revolving line of credit of $32 million of which $30.5 million was drawn at year end.

Cash Costs

The continuing challenge for BelAir is to reduce cash costs that consist of operating, G&A and interest costs. In 2001, the sum of those costs was $11.41 per boe. The individual components were: operating costs of $8.15 per boe, G&A costs of $2.38 per boe and interest costs of $0.88 per boe. This compares to $10.30 per boe in 2000.

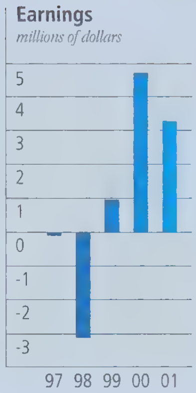
Natural gas processing charges are the main component of BelAir's operating costs. BelAir does not own facilities in most of the areas where BelAir produces natural gas. To process its natural gas, BelAir relies on accessing third party owned plant facilities that charge rates that increase unit operating costs. As an alternative to reduce processing costs, BelAir could construct its own facilities, although that is not always possible under Alberta's plant anti-proliferation policy. Another alternative would be to purchase processing capacity in existing plants. It is BelAir's assessment, however, that it would obtain a better return on capital by exploring for and developing reserves than by investing the capital in processing facilities. BelAir's expertise is exploring and producing – not processing. BelAir will focus on the reduction of operating costs during 2002.

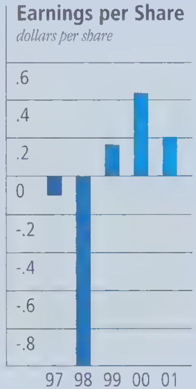
The major portion of BelAir's G&A costs is employee expense. In 2001, BelAir increased its staff complement to implement the 2001 capital program with a focus on exploration. This capital program was more than triple the capital program of the previous year. At the same time, BelAir does not expect to increase its staff complement. With the takeover of Tikal Resources Corp., BelAir did not increase the number of its employees.

Interest costs were lower than BelAir had targeted because interest rates fell during 2001.

Depletion, Depreciation and Site Restoration

Depletion and depreciation costs were $6.8 million in 2001 or $7.45 per boe compared to $4.0 million for 2000 or $6.14 per boe. The increase in the rate is attributable to the higher finding, development and acquisition costs in 2001. Future site restoration (non cash) costs were $398,799 in 2001 compared to $169,271 in 2000. Site restoration costs increased with the increase in volume of production in 2001 and the inclusion of Tikal's costs with BelAir's costs at year end.





Income Taxes

BelAir had no current income taxes payable in 2001 nor does it expect to be taxable on an income basis in 2002. In 2000, BelAir changed the method of accounting for its income taxes from the deferral method to the liability method without restating prior periods. Under this method, the difference between tax assets and liabilities and their financial reporting basis is computed and measured using current tax rates. Consequently, BelAir now reports its future income tax liability. Prior to the adoption of this method, BelAir followed the deferral method of tax allocation accounting under which the provision for corporate income taxes was based on the reported earnings taking into consideration the tax effects of timing differences between financial statement income or taxable income.

Net Income

Net income for the year ended December 31, 2001, was $3.3 million or $0.21 per weighted average share compared to $4.7 million or $0.44 per weighted average share outstanding in 2000.

Ceiling Test

BelAir is required to conduct a ceiling test calculation on a quarterly and an annual basis. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value. This test compares the value of BelAir's proven reserves, calculated using period-end prices, to the book value of those reserves. In periods of rapid price fluctuation, however, average prices over a specified period may be used in the calculation. The test takes into consideration royalties, operating costs, interest, G&A expense and taxes.

If the value of the future net revenues from proven reserves determined is less than the book value of the reserves, a write-down of the book value of the reserves must be taken. If the value of future net revenues of BelAir's reserves exceeds the book value of BelAir's reserves, no write-down of the book value of the reserves is required.

The ceiling test calculation at the end of 2001 determined that the value of future net revenues of BelAir's proven reserves, using constant prices based on the average prices of $5.77 per mcf and $33.07 per barrel for the year, exceeded the book value of BelAir's reserves. Therefore, no write-down of BelAir's reserves as at December 31, 2001 was required.

Investment Information

	2001	2000	1999	1998
Net Income (in millions of dollars)	$ 3.3	$ 4.7	$ 1.0	$ (3.2)
Return on Capital (1)	7%	22%	9%	(31%)
Return on Net Investment (2)	5%	19%	9%	(30%)
Return on Shareholders Equity (3)	8%	25%	10%	(41%)

1. Net income plus after-tax financing charges on debt divided by average of opening and closing capital employed. Capital employed is a total of equity and long term debt.

2. Net income plus after-tax financing charges on long term debt divided by average net investment. Net investment is total assets less current liabilities.

3. Net income is divided by average shareholders' equity.

Cash Flow

Cash flow in 2001 was $13.6 million or 11% greater than the $12.3 million reported in 2000. BelAir benefited from a 40% increase in average daily production from 1,778 boepd in 2000 to 2,492 boepd in 2001. Average oil and natural gas prices decreased by 5% from 2000 to 2001. BelAir received an average price per boe of $34.29 in 2001 compared to an average price per boe of $36.27 in 2000. On a weighted average share outstanding basis, cash flow was $0.89 per share compared to $1.13 per share in 2000, a decrease of 21%.

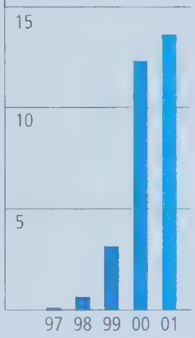
Capital Expenditures

BelAir's capital expenditures, including amounts allocated to capital as a result of the takeover of Tikal Resources Corp. and net of dispositions in 2001, were 191% higher than in 2000. Capital expenditures in 2001 were $70.2 million compared to $33.6 million in 2000. In 2001, BelAir implemented an increased capital program geared to a greater exploration drilling effort. In 2001, BelAir drilled 37 gross (16.1 net) wells compared to a total of 23 gross (10.7 net) wells drilled in the previous year.

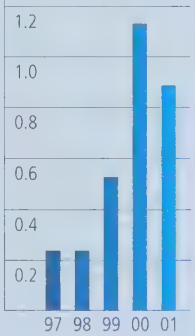
Normal Course Issuer Bid

On October 9, 2001, BelAir received approval of The Toronto Stock Exchange to implement a normal course issuer bid ("issuer bid") to purchase in the open market up to 10% of the public float of the issued and outstanding common shares, to a maximum of 1,346,367 shares. The issuer bid commenced on October 10, 2001 and will expire on October 10, 2002. From the commencement of this issuer bid in October to year end, BelAir has not purchased any common shares.

Cash Flow
millions of dollars



Cash Flow per Share
dollars per share



Under a previous issuer bid that commenced October 3, 2000 and expired October 2, 2001, BelAir purchased and cancelled 275,800 common shares during the year 2001 at an average price of $3.36 per share. Of the average price of $3.36 per share, $1.76 per share was allocated to share capital representing the average cost of all shares issued while the remaining $1.60 was allocated to retained earnings.

All shares purchased by BelAir under the issuer bid are returned to treasury and cancelled thereby increasing the shareholders' proportionate share of BelAir.

Liquidity and Capital Resources

Cash flow was $13.6 million and BelAir's net debt was $31.0 million at year end resulting in a ratio of net debt to cash flow of 2.3:1. BelAir has a $32.0 million revolving demand credit facility with the National Bank of Canada. To reduce its debt level during 2002, BelAir intends to dispose of certain non-core and non-strategic assets and limit capital expenditures in 2002 to internally generated cash flow.

Prior to 2002, BelAir's bank debt had been classified as a long-term liability on the basis that the bank provided BelAir with an annual letter indicating that it did not intend to call the loan in the ensuing year, thereby making the maturity of the loan longer than one year. Accounting guidelines to be implemented in 2002 require that if a loan is on demand then the loan is callable within one year and the loan must be treated as a current liability. While the nature of BelAir's debt has not changed as it is presently structured, the new accounting guidelines will require that the bank debt will be re-classified on the balance sheet from a long-term liability to a current liability with the attendant negative effect on working capital.

In November 2001, BelAir issued 1.67 million shares at $3.00 per share in a flow-through share financing to raise $5.0 million before share issuance costs. Proceeds of the financing were used to fund oil and gas exploration activities in the remainder of 2001 and in 2002.

In 2001, BelAir renounced $5.0 million in Canadian exploration expense to flow through shareholders.

2002 Capital Budget

BelAir has a capital budget of $12.0 million approved by the Board of Directors The capital budget does not include provisions for dispositions or acquisitions.

Risk Assessment

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common in all businesses while others are specific to the sector. The following reviews the general and specific risks and includes BelAir's approach to managing these risks.

The oil and gas industry is subject to uncertainties and risks related to commodity prices, product market demand, operations, exploration success, transportation interruptions, foreign exchange and interest rates, government regulation and taxes and environmental and safety concerns.

BelAir's management recognizes that although these risks may not be entirely controlled, they can be monitored and mitigated.

The recognition of these risks and the knowledge of the ways to mitigate these risks are related directly to the experience of the management team. Each member of the BelAir executive management team has more than 20 years of direct experience in the oil and natural gas industry.

BelAir employs highly qualified and experienced professionals, maintains a strong and flexible financial position, is proactive in implementing environmental and safety operating procedures and continues to pursue low cost reserve additions and cash flow optimization to sustain future growth.

Finding Reserves

Oil and natural gas exploration requires capital and human resources to generate and test exploration concepts. The eventual testing of a concept may not necessarily result in the discovery of economic reserves. BelAir minimizes finding risk by ensuring that the majority of prospects have multi-zone potential in areas where BelAir's expertise and experience is the greatest. BelAir utilizes the latest geological and geophysical techniques to enhance the potential for success in finding reserve accumulations.

Exploration and acquisition risks are managed by employing experienced technical professionals and exploring for or acquiring reserves in the areas where we have expertise and experience. Extensive geological, geophysical, engineering, environmental and financial analyses are performed prior to drilling or acquiring new prospects. BelAir mitigates certain of these risks by operating in geographical areas characterized by low finding and development costs. BelAir is concentrating its exploration and acquisition program to western Alberta and northeastern British Columbia and will continue to divest in areas that are not consistent with BelAir's technical expertise.

BelAir's prospect selection process is based on risk analysis to ensure capital expenditures balance the objectives of immediate cash flow growth through development activity and future cash flow from the discovery of reserves. Through exploration, BelAir keeps a broad range of prospects in its inventory of potential drilling choices as well as investing a portion of its annual budget in undeveloped land for future years.

Reserve Estimates

Reserve value estimates are based on economically recoverable oil and natural gas reserves and the future net cash flows from the reserves. Estimates of reserve value are based on a number of variable factors and assumptions such as commodity prices, projected production, government regulation and future operating costs. All of these estimates may vary from actual results. Estimates may vary in respect of recoverable oil and natural gas reserves attributable to any set of properties and the classifications of such reserves based on the risk of recovery and estimates of future net revenues. BelAir's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates and could be material.

Commodity Price Risk

Commodity price fluctuations can be ameliorated by a program of commodity price hedges. BelAir can protect itself from the negative effects of the volatility of commodity prices by the use of market instruments that can ensure future prices. BelAir will continue to look for opportunities to implement market instruments to protect against downside risk in commodity prices. BelAir will use market instruments to ensure that future cash flow is sustained at levels that will allow BelAir to achieve its financial objectives.

Financial and Liquidity Risks

The sensible use of bank financing is an integral part of BelAir's capital structure. BelAir limits the amount of debt it will bring into the capital structure to its ability to generate cash flow.

In 2001, BelAir took advantage of falling interest rates by borrowing in short term bankers' acceptances. There were 8 decreases in bank prime interest rates in 2001 representing a total decrease of 350 basis points (3.5%).

BelAir expects an increase in the cost of borrowing in 2002. The risk of an increase in the cost of debt financing can be mitigated by the use of financial instruments that fix interest rates at current levels when interest rates are expected to rise. At the end of 2001, BelAir fixed the rate on $7.0 million of its debt for one year in anticipation of future interest rate hikes. In February 2002, BelAir fixed the rate on an additional $7.0 million for a period of one year.

BelAir relies on various sources of funding to support its growing capital expenditure program. Internally generated cash flow provides the minimum level of funding on which BelAir's annual capital program is based. Debt may be utilized to expand the capital program when deemed appropriate. New equity, if available and if on favorable terms, will be utilized to expand exploration programs. If cash flow is affected detrimentally by factors that BelAir cannot control such as commodity prices, exchange rates, interest rates and change in government regulation and tax policies, BelAir would respond by reducing capital expenditures to maintain a strong balance sheet.

The objective of BelAir's risk management policy is to secure its capital program and cover debt payments by ensuring that budgeted cash flow levels are attained through the minimization of exposure to commodity price, foreign exchange and interest rate volatility.

Market Risk

BelAir is exposed to market risk to the extent the demand for oil and natural gas produced by BelAir exists within Canada and the United States. Oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals. BelAir mitigates these risks by connecting its natural gas production to mature pipeline infrastructure that operates with minimal interruptions. BelAir's oil production is high quality light sweet crude and is not subject to adverse quality differentials. BelAir's exploration activity targets natural gas near existing infrastructure.

Operational Risk

Operational risk is managed by becoming the operator of jointly owned properties where possible as a means maintaining control over the timing of capital expenditures, operational decisions and costs. BelAir intends to continue to increase its interests and be the operator in identified key properties while divesting itself of low interest properties where operatorship would not be available and the properties do not fit into BelAir's focus areas. In 2001, BelAir operated its top 6 producing properties representing 80% of its production.

Environmental and Safety Risks

To manage environmental risks, BelAir complies with all environmental regulations under the various jurisdictions that administer environmental policy in the areas that BelAir carries out field operations. Environmental reviews are completed as part of the Company's due diligence when property acquisitions are contemplated. BelAir maintains a program to review all of its producing properties on a three year rotating basis to assess the environmental impact of our operations. BelAir has implemented a safety and environmental policy that is designed, at a minimum, to comply with current governmental regulations for the oil and gas industry. Employees and field contractors follow the Company's environmental and safety manual and the policies set out by occupational health and safety regulations.

BelAir is committed to minimizing the effects of our activities on the environment and protecting our employees and contractors. BelAir continually monitors government standards to ensure compliance with any changes to these policies and regulations. BelAir has a formal Emergency Response Plan (ERP) detailing procedures that employees and contractors must follow in the event of an operational emergency.

An Environmental, Health and Safety Committee consisting of officers and directors of the company, reports to the Board of Directors on a regular basis.

Finally, BelAir carries adequate insurance to cover identifiable risks and potential liabilities related to field and office activity as well as coverage for personnel and directors executing their corporate duties. BelAir maintains comprehensive insurance to cover risks of well blow-out and pollution.

Statement of Corporate Governance Practices

Corporate Governance

The Board of Directors of BelAir believes that good corporate governance improves corporate performance and benefits all shareholders. In August 2000, BelAir was listed for trading on the TSE. The TSE has set out a series of guidelines for effective corporate governance. These guidelines deal with such matters as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members and other items dealing with corporate governance. The TSE requires that each listed company disclose, on an annual basis, its approach to corporate governance with reference to the guidelines.

Responsibilities of the Board of Directors

BelAir's Board of Directors is responsible for establishing the Corporation's strategic direction and operating philosophy and then monitoring management's conduct and performance. The mandate of the Board of Directors is to oversee the management of the business and affairs of the Corporation. The Board's mandate covers the development, adoption and implementation of the Corporation's strategies and plans.

Mandate of the Board

The Board of Directors has a general mandate to oversee the management of the business and affairs of BelAir. The Board reviews the performance of the major corporate plans and actions, including:

- Strategic plans;
- Management development and succession;
- Business development initiatives;
- Integrity of the Corporation's internal controls;
- Management information systems and systems to identify principal business risks;
- Interim and annual financial results, and public disclosure;
- Review of the Corporation's results of operations, including the evaluation of the general and specific performance of management.

The Board expects management to be responsible for the management of the Corporation's day to day operations, subject to the Board's mandate. Management is also expected to fully inform the Board on the business and affairs of the Corporation, to develop and maintain an effective organization and to ensure management succession. The Board ensures that management develops and maintains a system of internal controls designed to safeguard assets from loss or unauthorized use and to ensure the accuracy of the financial records.

The Board considers certain decisions are of sufficient importance that management should seek prior approval of the Board, such as:

- The approval of the annual capital and operating budget and any material changes to this budget;
- The acquisition or sale of significant oil and natural gas assets;
- Significant debt financing;
- Changes in management;
- All matters as required under the Business Corporations Act (Alberta);
- Significant changes in corporate policies, goals or objectives.

The Board meets on a regular quarterly basis and otherwise as required.

Composition of the Board

BelAir maintains a policy of having a Board comprised of a majority of independent and unrelated directors.

The Corporation's Articles provide that the Board is to consist of not fewer than three and not more than ten members. Currently, the Board is composed of eight members who are elected annually by the shareholders. Six members are independent and two members are officers and employees of the Corporation, specifically, the President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer. This ratio ensures the independence of the Board.

The Board is presided over by the Chairman, who also presides over the shareholder meetings. The Board with the advice of the Compensation and Governance committee determines whether a majority of the Board is independent and unrelated.

The Board has concluded that the number of directors on the Board, as presently constituted, is appropriate for a company the size of BelAir. The Board is of the view that each director, other than the President and the Vice President, Finance, is free from any interest and any business or other relationship which would or could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than the interests arising from shareholding, and are therefore unrelated.

Committees of the Board

In order to assist the Board in efficiently carrying out certain of the Board's responsibilities, the Board has established three standing committees:

- The Audit and Reserves Committee
- The Compensation and Governance Committee
- The Environmental, Health and Safety Committee

Audit and Reserves Committee

The Audit and Reserves Committee, composed of three independent and unrelated directors, assists the Board in fulfilling its responsibilities as they relate to BelAir's accounting policies, internal controls, financial reporting practices, reserves evaluation and management of business risks. The committee maintains lines of communication between the Board and management charged with financial and reserves matters and consults with the external auditors and reserves evaluation engineers independent of management. The committee meets at least quarterly (and more if required) with management and the external auditors to discuss internal controls, financial reporting and business risks, and at least annually to discuss the audit plan proposed by the auditors. The committee also meets at least twice annually with the independent reserves evaluation engineers to discuss the evaluation of BelAir's reserves. At such meetings, the committee considers the terms of engagement for such auditors or reserves evaluation engineers.

Compensation and Governance Committee

The Compensation and Governance Committee, composed of two outside directors and one director from management, evaluates and oversees management's overall performance and acts as an advisory committee with respect to corporate governance practices. The committee recommends the approach to governance issues. The committee oversees the compensation policies for non-management directors and members of each Board committee.

The committee reviews the performance of senior management and the compensation policies maintained by BelAir. The committee also reviews and makes recommendations to the Board in respect of the senior management organization and succession plans. The committee meets at least twice a year.

Environmental, Health and Safety Committee

The Environmental, Health and Safety Committee, composed of two independent directors and one director from management, evaluates and oversees BelAir's environmental, health and safety policies, standards, accountabilities, and programs. The committee recommends to the Board changes in or additions to such policies, standards, accountabilities and programs in the context of competitive, legal and operational considerations. The committee reports to the Board on the nature and extent of compliance with the environmental, health and safety policies, standards and applicable legislation, the nature and extent of non-compliance together with the reasons pertaining thereto, and the plan and timetable to correct deficiencies and the status of such matters. The committee reviews periodically with management and legal counsel any civil and criminal proceedings, claims or other contingencies which could have a significant effect on BelAir with respect to environmental, health or safety matters. The committee is responsible to report to the Board on the appropriateness of the policy guidelines in place to administer BelAir's environmental, health and safety programs. The committee meets at least quarterly during the year.

Powers and Expectations of Management

Management is responsible for the development of overall strategy and the preparation and implementation of related business plans. The role of the Board is to review and ultimately approve the strategies and plans for BelAir. The Board relies significantly on the information and analyses provided by management. It has confidence in management's skills and administrative abilities.

Under the rules of The Toronto Stock Exchange (TSE), BelAir is required to disclose information relating to its corporate governance system with specific reference to each of the TSE's fourteen guidelines for effective corporate governance. Where BelAir's corporate governance system is different from any of the guidelines or where the guidelines do not apply to BelAir's corporate governance system, BelAir is required to explain the differences or the inapplicability of the guidelines to BelAir.

The alignment of BelAir's corporate governance practices with the fourteen guidelines recommended by the TSE is discussed below. The disclosure has been approved by the Board of Directors.

Corporate Governance Guidelines

1) The board of directors of every corporation should explicitly assume responsibility for the stewardship and specifically for:

a) Adoption of a strategic planning process

Yes, BelAir aligns with this guideline

Comments: Management is responsible for the development of overall corporate strategies. These strategies are reviewed and approved annually by the Board.

b) Identification of principal risks and ensuring implementation of appropriate risk managing systems.

Yes, BelAir aligns with this guideline

Comments: The Board reviews the principal risks of BelAir on an ongoing basis and management's recommendations for managing such risks. The Board's participation in the strategic planning process and the approval of the capital and operating budget involves the identification and consideration of the principal risks of BelAir's business. Specific risk and risk management is addressed by the Audit and Reserves Committee.

c) Succession planning including appointment, training and monitoring senior management.

Yes, BelAir aligns with this guideline

Comments: The Compensation and Governance Committee is responsible for reviewing the compensation of senior management of BelAir and for making recommendations to the Board on such matters as management organization and succession plans.

d) Communications policy

Yes, BelAir aligns with this guideline

Comments: The Board's mandate includes ensuring that systems are in place for open, accurate and timely communication with its shareholders, regulatory agencies and other stakeholders. This communication includes annual reports, quarterly reports, press releases, annual information forms, maintaining a website and group meetings.

2) Majority of directors should be unrelated (independent from management and free from conflicting interest).

Yes, BelAir aligns with this guideline

Comments: Two of the eight members of the Board are considered to be related. The Board has adopted a policy that the majority of the directors should be independent and unrelated.

3) Disclose which directors are related.

Yes, BelAir aligns with this guideline

Comments: Victor M. Luhowy and Ken D. MacRitchie are members of the Board and officers of BelAir.

4) Appoint a committee responsible for appointment/assessment of directors composed of non-management directors the majority of whom are unrelated.

No, BelAir does not align with this guideline

Comments: The members of the Board and management present candidates for the approval of the Board as a whole.

5) Implement a process for assessing the effectiveness of the board, its committees and the contribution of individual directors.

Yes, BelAir aligns with this guideline

Comments: The Board is carefully chosen based on the experience and reputation of its candidates. Board members are assessed on similar standards of conduct and performance used in evaluating employees of BelAir.

6) Provide orientation and education programs for new directors.

Yes, BelAir aligns with this guideline

Comments: All directors receive an orientation prior to assuming their board duties, however, there are no formal orientation or education programs presently available for new directors.

7) Review the size of the board and its effectiveness in making decisions.

Yes, BelAir aligns with this guideline

Comments: The Board consists of eight members, a size that requires the full participation of all board members in committees and in the decision making process. Given the size of BelAir, the current size and representation of the Board is large enough to permit a diversity of views and to effectively carry out the governance duties and responsibilities of the Board.

8) Review the compensation of directors and whether it reflects the risks and responsibilities of an effective director.

Yes, BelAir aligns with this guideline

Comments: The mandate of the Compensation and Governance Committee includes the review and recommendation to the Board of Directors' remuneration. Commencing May 2001, directors received remuneration based on time commitment to Board and Committee meetings.

9) Committees should generally be composed of non-management directors. The majority of committee members should be unrelated.

Yes, BelAir aligns with this guideline

Comments: All of the Board committees are comprised of a majority of non-management, independent and unrelated directors.. The Audit and Reserves Committee is composed entirely of non-management, independent and unrelated directors.

10) Appoint a committee responsible for the response and approach to corporate governance issues.

Yes, BelAir aligns with this guideline

Comments: Given the size of BelAir and of the Board, the Board as a whole considers issues of corporate governance where those issues are not specifically assigned to committee. In November 2001, the mandate of the Compensation Committee was expanded to include the responsibility for the response and approach to corporate governance issues.

11a) Define the limits of management's responsibilities by developing mandates for the board and the CEO

Yes, BelAir aligns with this guideline

Comments: The Board of Directors has plenary power to manage and supervise the management of the business and affairs of BelAir. The Board established and approved the duties and responsibilities that have been delegated to senior management. Management operates within the parameters established annually by the operating and capital budget.

b) The board should approve the CEO's corporate objectives.

Yes, BelAir aligns with this guideline

Comments: The Board approves the CEO's objectives on an annual basis.

12a) Adopt structures and procedures to ensure that the board can function independently of management.

Yes, BelAir aligns with this guideline

Comments: The Board and its committees meet independently of management when warranted. The Board expects management to be responsible for the day to day operations of BelAir's business. This includes an ongoing review of BelAir's strategies and their implementation in light of changing business market and competitive conditions; complete and accurate reporting to shareholders; comprehensive annual budgeting process and monitoring financial performance against the budget; and the timely response to any legal actions or changes in any government regulations concerning BelAir's activities.

b) Appoint a chairman who is independent of management or assign responsibility to a "Lead Director"

Yes, BelAir aligns with this guideline

Comments: The chairman of the Board, Owen C. Pinnell, is an unrelated director and is independent of management.

13a) Establish an audit committee with a specially defined mandate.

Yes, BelAir aligns with this guideline

Comments: The Audit and Reserves Committee's mandate includes overall responsibility for financial statements and related disclosure, reports to shareholders and other related communications, meeting with the external auditors independently of management and the establishment of appropriate financial controls and policies to ensure the integrity of the accounting systems. These matters include ongoing reviews with BelAir's auditors including the scope of the audit and quarterly reviews and the role and fees of external auditors. The Audit and Reserves Committee is also responsible for reviewing the process and integrity of the annual reserves evaluation report prepared by an independent reserves evaluation engineering firm.

b) Members of the audit committee should be non-management and unrelated directors.

Yes, BelAir aligns with this guideline

Comments: All the members of the Audit and Reserves Committee are non-management and unrelated directors, independent of management.

14) Implement a system to enable individual directors to engage outside advisers at the Corporation's expense.

No, BelAir does not align with this guideline

Comments: Mandates of the Committees provide for the engagement of outside advisors and consultants at the expense of BelAir. In the event that there are matters related to any or Board action in respect of which a director wishes to receive independent advice, the Board will facilitate such a request.

Management's Report for Financial Statements

The accompanying financial statements of BelAir Energy Corporation and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with the accounting principles generally accepted in Canada and within the framework of the Company's significant accounting policies as described in the notes to the financial statements. The Company's internal controls have been designed and maintained by management to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and that the financial information is accurate and reliable. The financial statements reflect management's best estimates and judgements based on currently available information within reasonable limits of materiality.

Financial information presented throughout the Annual Report has been prepared and reviewed by management to ensure it is consistent with that shown in the financial statements.

Management is responsible for the integrity of the financial statements. Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit and Reserves Committee.

The Audit and Reserves Committee is appointed by the Board of Directors and is comprised of independent directors that are not employees of the company. The Audit and Reserves Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities and to review the financial statements and the external auditor's report. The Audit and Reserves Committee has reviewed the financial statements, including the notes thereto with KPMG LLP and management. The Audit and Reserves Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of external auditors.

KPMG LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders, to audit the financial statements in accordance with generally accepted accounting standards in Canada and provide an independent professional opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly. KPMG LLP have full and free access to the Audit and Reserves Committee.

The financial statements, including the notes, have been approved by the Board of Directors on the recommendation of the Audit and Reserves Committee.

Victor Luhowy

Victor M. Luhowy
President and CEO

Kenneth D. MacRitchie
Vice President, Finance and CFO

Calgary, Canada
March 12, 2002

Consolidated Financial Statements

Auditors' Report to the shareholders

We have audited the consolidated balance sheets of BelAir Energy Corporation as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 12, 2002

Consolidated Balance Sheets

December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Accounts receivable	$ 8,326,124	$ 8,575,633
Prepaid expenses	536,679	573,771
	8,862,803	9,149,404
Capital assets (note 3)	109,571,915	46,154,923
	$ 118,434,718	$ 55,304,327
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9,388,418	$ 9,666,810
Bank loan (note 4)	30,461,255	10,477,438
Provision for future site restoration	1,661,619	707,105
Future income taxes (note 6)	21,322,041	8,270,127
Shareholders' equity:		
Share capital (note 5)	50,839,279	24,248,182
Retained earnings	4,762,106	1,934,665
	55,601,385	26,182,847
Commitments (note 7)		
	$ 118,434,718	$ 55,304,327

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Victor M. Luhowy, Director

Owen Pinnell, Director

Consolidated Financial Statements

Consolidated Statements of Earnings and Retained Earnings

Years ended December 31, 2001 and 2000

	2001	2000
Revenue:		
Petroleum and natural gas sales	$ 31,187,927	$23,609,541
Royalties	(7,379,277)	(4,704,502)
Other	359,287	264,497
	24,167,937	19,169,536
Expenses:		
Operating	7,410,340	4,184,457
General and administration	2,167,361	1,509,036
Interest on long-term debt	803,759	1,008,272
Provision for site restoration	398,799	169,271
Depletion, depreciation and amortization	6,779,277	3,994,641
	17,559,536	10,865,677
Net income before income taxes	6,608,401	8,303,859
Income taxes (note 6):		
Current	143,000	181,670
Future	3,196,624	3,386,132
	3,339,624	3,567,802
Net income	3,268,777	4,736,057
Retained earnings (deficit), beginning of year	1,934,665	(2,185,587)
Adjustment for share redemption	(441,336)	147,234
Adjustment for change in accounting for income taxes	–	(763,039)
Retained earnings end of year	$ 4,762,106	$ 1,934,665
Per share amounts (note 5 (f)):		
Basic	$ 0.21	$ 0.44
Diluted	$ 0.21	$ 0.43

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Net income	$ 3,268,777	$ 4,736,057
Items not involving cash:		
Depletion, depreciation and amortization	6,779,277	3,994,641
Provision for site restoration	398,799	169,271
Future income taxes	3,196,624	3,386,132
Funds from operations	13,643,477	12,286,101
Change in non cash operating working capital	(963,277)	(369,778)
	12,680,200	11,916,323
Financing:		
Issue of share capital	4,490,540	4,105,906
Share issue costs	(265,853)	(527,398)
Bank loan	8,261,916	(2,416,185)
Note receivable	–	18,905
	12,486,603	1,181,228
Investments:		
Business acquisition (note 2)	–	(1,432,008)
Exploration and development	(25,059,747)	(16,179,894)
Proceeds on sale of petroleum & natural gas properties	–	4,566,819
Site restoration expenditures	(107,056)	(52,468)
	(25,166,803)	(13,097,551)
Change in cash		
Cash, beginning of year	–	
Cash, end of year	$ –	$ –

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2001 and 2000

1. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, BelAir Exploration Inc., BelAir Royalty Fund Ltd., Mermaid Resources (UK) Limited, Cirque Energy (UK) Limited, and a partnership, BelAir Limited Partnership.

(b) Capital assets:

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Capitalized costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil.

The Corporation applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year-end prices and include an allowance for estimated future general and administrative expenses, interest expense, income taxes, and capital expenditures.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances, which result in a change in the depletion rate of 20% or more.

Depreciation of field trucks, furniture and office equipment is provided using the straight-line method based upon estimated useful lives at rates of 10% to 35%.

(c) Interest in joint ventures:

Substantially all of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(d) Future site restoration and abandonment costs:

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(e) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(f) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Weighted average number of shares is determined by relating the portion of time within the reporting period that common shares have been outstanding to the total time in that period. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(g) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions when the shares are issued.

1. Significant accounting policies: (continued)

(h) Stock-based compensation plans:

The Corporation has equity incentive plans, which are described in note 5. No compensation expense is recognized for these plans when stock options are issued. Any consideration received on exercise of the stock options is credited to share capital.

(i) Income taxes:

The Corporation uses the liability method of accounting for future income taxes. The future tax liability is calculated assuming the financial assets and liabilities will be settled at their carrying amount. This amount is compared to the tax assets and the substantively enacted tax rate is multiplied by the difference. Prior to the adoption of the new recommendations, the Corporation followed the deferral method of tax allocation accounting under which the provision for corporate income taxes was based on the reported earnings taking into consideration the tax effects of timing differences between financial statement income or taxable income.

2. Business acquisition:

On December 14, 2001, the Corporation acquired all of the issued and outstanding Common Shares of Tikal Energy Corp. The acquisition was accounted for using the purchase method with the results of operations being included from the date of acquisition.

Allocated:	
Capital assets	$ 44,356,522
Working capital deficiency	(971,486)
Provision for site restoration	(662,771)
Long-term debt	(11,721,901)
Future income tax liability	(7,848,784)
	$ 23,151,580
Cost of acquisition:	
Share capital issued	$ 23,151,580

On May 1, 2000, the Corporation acquired all of the issued and outstanding Common Shares of Crownjoule Exploration Ltd. The acquisition was accounted for using the purchase method with the results of operations being included from the date of acquisition.

Allocated:	
Capital assets	$ 21,955,929
Working capital deficiency	(982,003)
Provision for site restoration	(163,317)
Long-term debt	(9,139,763)
Future income tax liability	(1,385,763)
	$ 10,285,083
Cost of acquisition:	
Share capital issued	$ 8,853,075
Cash consideration paid	1,432,008
	$ 10,285,083

3. Capital assets:

2001	Cost	Accumulated depletion, depreciation and amortization	Net book value
Petroleum and natural gas properties and equipment	$ 125,410,252	$ 16,553,043	$ 108,857,209
Other assets	1,006,177	291,471	714,706
	$ 126,416,429	$ 16,844,514	$ 109,571,915
2000			
Petroleum and natural gas properties and equipment	$ 55,684,157	$ 9,883,723	$ 45,800,434
Other assets	536,003	181,514	354,489
	$ 56,220,160	$ 10,065,237	$ 46,154,923

The net book value of petroleum and natural gas properties at December 31, 2001 exceeded the net recoverable amount calculated under the full cost accounting guideline by $12.4 million, net of tax. The guideline provides that in times of rapidly fluctuating commodity prices, a corporate average price may be used in the calculation. The Corporation passed the ceiling test using average prices of $5.77 Cdn. per mcf for natural gas and $33.07 Cdn. per barrel for crude oil. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

The costs of unproven lands at December 31, 2001 of $11,800,000 (2000 - $6,300,000) have been excluded from the depletion calculation.

3. Capital assets: (continued)

As at December 31, 2001, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are $4,800,000 (2000 - $2,400,000).

During 2001, the Corporation capitalized $260,000 (2000 - $147,000) in overhead-related costs directly related to petroleum and natural gas properties.

4. Bank loan:

The Corporation has available the following credit facilities with a chartered bank:

	2001	2000
Revolving demand loan to a maximum of $32,000,000, bearing an interest rate of bank prime rate plus 1/4%	$ 30,461,255	$ 10,477,438
Treasury/swap risk line, for the purchase of various interest rate, foreign exchange and energy commodity swaps and forwards to a maximum amount of $2,500,000 and a maximum term of 48 months to be settled by the terms of the contract	–	–
	$ 30,461,255	$ 10,477,438

The loans are secured by a general assignment of book debts and a $50,000,000 first floating charge debenture on all assets. The Corporation is required to meet certain financial and engineering reporting requirements. The loans are subject to an annual review. The next annual review will be undertaken before April 30, 2002. Although the loans are of a demand nature, the lender has advised the Corporation that it does not intend to demand repayment of the loans within the next fiscal year and therefore the loans have been classified as long-term.

5. Capital stock:

(a) Authorized:

Unlimited number of voting Common Shares

Unlimited number of non-voting First Preferred Shares, issuable in series

(b) Common Shares issued:

	Number of Shares	Amount
Balance, December 31, 1999	7,088,659	$ 13,838,843
Flow-through share issued	1,500,000	4,500,000
Crown Joule acquisition	6,014,434	8,853,075
Exercise of options	15,625	28,650
Adjustment for change in income taxes (note 7)	–	(124,568)
Shares repurchased and cancelled	(282,968)	(569,978)
Tax effect of flow-through shares	–	(1,980,000)
Share issue costs	–	(527,398)
Tax effect of share issue costs	–	229,558
Balance, December 31, 2000	14,335,750	24,248,182
Flow-through share issued	1,666,667	5,000,000
Tikal acquisition	10,335,532	23,151,580
Property acquisition	300,000	780,000
Exercise of options	192,450	321,110
Exercise of warrants	32,400	97,200
Shares repurchased and cancelled	(275,800)	(486,434)
Tax effect of flow-through shares	–	(2,130,000)
Share issue costs	–	(265,853)
Tax effect of share issue costs	–	123,494
Balance, December 31, 2001	26,586,999	$ 50,839,279

(c) Flow-through shares and warrants:

In November 2001 the Corporation issued 1,666,667 shares for proceeds, before issue costs, of $5,000,000. The future tax adjustment of the flow-through shares of $2,130,000 has been recorded to future tax liability.

In December 2000 the Corporation issued 734,000 units for proceeds of $4,404,000. Each unit consisted of two flow-through shares and one warrant. 32,000 warrants were exercised for $97,200 and the remaining warrants have expired. 16,000 units consisting of 2 flow-through shares and 1 option were also issued for proceeds of $96,000. These options expired on December 22, 2001. The future tax adjustment of the flow-through shares of $1,980,000 has been recorded to future tax liability.

5. Capital stock: (continued)

(d) BelAir stock option plan:

The Corporation has a fixed stock option plan in which the Corporation may grant options to its employees for up to 1,900,000 shares of common stock. During December 2001 the Corporation granted 510,000 options to employees and directors. The cumulative options issued under the plan exceed the options approved by the shareholders. The Toronto Stock Exchange has given approval for this grant subject to approval of the shareholders. This approval will be sought at the annual general meeting. Under this plan, the exercise price of each option equals the market price of the Corporation's stock on the date of grant and an option's maximum term is ten years. Options are granted periodically throughout the year. The Corporation's directors and officers' options' vest immediately and employees vest one-third a year for three years.

Changes in the number of options, including brokers options, with their weighted average exercise price are summarized below:

	2001		2000	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options outstanding, beginning of year	1,277,250	$ 1.90	635,250	$ 2.10
Granted	1,001,000	2.13	686,500	1.79
Exercised	(192,450)	1.67	(15,625)	1.83
Cancelled	(16,000)	3.00	(28,875)	2.11
Stock options outstanding, end of year	2,069,800	$ 2.14	1,277,250	$ 1.90
Exercisable at year end	1,345,667	$ 2.19	1,162,680	$ 1.91

The following table summarizes information about fixed stock options outstanding at December 31, 2001:

Range of exercise prices	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number exercisable	Weighted average exercise price
$ 1.44 - $1.99	1,109,125	$ 1.73	8.58	593,792	$ 1.69
$ 2.00 - $2.99	495,425	$ 2.14	7.51	415,625	2.13
$ 3.00 - $4.64	465,250	$ 3.11	8.97	336,250	3.15
	2,069,800	$ 2.14	8.47	1,345,667	$ 2.19

(e) BelAir / Tikal stock option plan:

As a result of the takeover of Tikal Energy Corp., BelAir has received approval from the Toronto Stock Exchange to rollover options held by Tikal employees, officers, directors and contractors into a new BelAir / Tikal option plan. Under this plan, upon exercise of an option, holders of Tikal options are entitled to receive 0.4 of a BelAir share. The option term is determined under the "change of control" section of the old Tikal plan and ranges from 90 days to 1 year.

At December 31, 2001, 845,844 options with a weighted average exercise price of $3.06 are outstanding and have a weighted average remaining contractual life of 0.30 years.

(f) Per share amounts:

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the year ended December 31, 2001 was 15,379,332 (2000 – 10,848,205).

In computing diluted earnings per share, 445,895 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2001 (2000 – 120,231) for the dilutive effect of employee stock options and warrants.

6. Income taxes:

(a) Income tax provision:

The provision for income taxes in the financial statements differs from the result, which would have been obtained by applying the combined federal and provincial tax rate to the Corporation's earnings before income taxes. This difference results from the following items:

	2001	2000
Earnings before income taxes	$ 6,608,401	$ 8,303,859
Combined federal and provincial tax rate	42.6%	44.6%
Computed expected income tax expense	$ 2,815,179	$ 3,703,521
Increase (decrease) in income taxes resulting from:		
Non-deductible crown charges	2,979,039	1,674,253
Resource allowance	(2,015,248)	(1,817,682)
Alberta Royalty Tax Credit	(213,000)	(187,631)
Other	12,557	13,671
Effect of change in tax rate	(381,903)	-
Future income taxes	3,196,624	3,386,132
Capital taxes	143,000	181,670
Income taxes	$ 3,339,624	$ 3,567,802

6. Income taxes: (continued)

(b) Future tax liability:

The components of the Corporation's future income tax liability at December 31, 2001 are as follows:

Future income tax assets:	
Future site restoration	$ (530,887)
Share issue expenses	(627,006)
	(1,157,893)
Future income tax liabilities:	
Capital assets	18,712,347
Assets held in partnership with different tax year	3,767,587
	22,479,934
Net future income tax liability	$ 21,322,041

As at December 31, 2001, the Corporation has a commitment to renounce $5,000,000 of income tax attributes associated with oil and gas exploratory and development activities by December 31, 2002.

7. Commitments:

The minimum rentals payable under long-term office leases and office equipment, exclusive of certain operating costs, for which the Corporation is responsible, are as follows:

2002	$ 333,820
2003	348,577
2004	349,343
2005	244,668
2006 and thereafter	242,016
	$ 1,518,424

8. Financial instruments:

(a) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(b) Credit risk:

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments included on the balance sheet, other than long-term debt, approximate their fair value due to their short-term maturity. The long-term debt have carrying values that approximate fair value due to the cost of borrowing floating at December 31, 2001 and 2000.

The Board of Directors

Owen C. Pinnell

Owen C. Pinnell, Managing Partner of I3 Capital Partners Inc. has more than fifteen years experience as president, CEO and director of various public and private companies in Canada and the USA. He was the founder and CEO of Newalta Corporation from 1982-1992 and the founder and Managing Director of Anadime Corporation from 1992 –2001. Mr. Pinnell is a mechanical engineer by profession, receiving his engineering education at the Auckland Technical Institute in New Zealand. Mr. Pinnell is a registered Professional Engineer in Alberta and British Columbia. Mr. Pinnell is the chairman of the Board of Directors and the Audit and Reserves Committee and is a member of the Compensation and Governance Committee.

C. David Banks

C. David Banks has over forty years of experience in the oil and natural gas industry. He is President of Resource Professionals Inc., a technical and professional staffing service in the oil and gas industry and the President and Principal of RP Consulting Inc., an engineering and geological consulting service. Mr. Banks has held executive positions in Westar Petroleum Limited, United Canso Oil & Gas Ltd. and Golden Eagle Oil & Gas Ltd. Mr. Banks is a Professional Engineer in the Province of Alberta. He is a graduate of the University of Manitoba with a Bachelor of Science in Mechanical Engineering. Mr. Banks is the chairman of the Compensation and Governance Committee and a member of the Environmental, Health and Safety Committee.

Victor M. Luhowy

Victor M. Luhowy has over thirty years of experience in the oil and natural gas industry in western Canada. Mr. Luhowy has been President and Chief Executive Officer of BelAir since its inception in 1997. Prior to 1997, he was Senior Vice President and Chief Operating Officer of ELAN Energy Inc. Mr. Luhowy is a director of BlackRock Ventures Inc. and is a member of the Board of Govenors of the Canadian Association of Petroleum Producers (CAPP). He is a Professional Engineer of Alberta. Mr. Luhowy has a Bachelor of Science in Mechanical Engineering from the University of Alberta and an MBA from the University of Calgary. Mr. Luhowy is a member of the Compensation and Governance Committee and the Environmental, Health and Safety Committee.

Archie A. MacKinnon

Archie A. MacKinnon has over thirty years of experience in investment banking and venture capital activities. Mr. MacKinnon is Managing Director of SutterHill Capital Corporation, a private investment banking concern. He is also President of AIS Resources Limited, a publicly traded company on the CDNX. Prior to this, Mr. MacKinnon was the President and Chief Executive Officer of Alta-Can Telecom, and the President of the Association of Canadian Venture Capital Companies (ACVCC). Mr. MacKinnon is a Professional Engineer in the Province of Ontario. He is a graduate in Electrical Engineering from the University of British Columbia and holds an MBA from the Schulich School of Business. Mr. MacKinnon is a member of the Audit and Reserves Committee.

The Board of Directors

Kenneth D. MacRitchie

Kenneth D. MacRitchie has twenty-two years of experience in the oil and natural gas industry, primarily in oil and gas financing. Mr. MacRitchie has been Vice President, Finance and Chief Financial Officer of BelAir since its inception in 1997. Prior to 1997, he was an executive officer for two years with Equis Energy Corporation, a junior oil and natural gas company listed on the TSE. Mr. MacRitchie has also had fourteen years of experience with three banks that specialized in oil and gas financing in western Canada. Mr. MacRitchie holds a Bachelor of Arts, Honours degree from York University and an MBA from Dalhousie University.

Robert L. Phillips

Robert L. Phillips, Q.C. has over twenty-six years experience in law, securities regulation, banking, corporate finance, mergers, acquisitions and divestitures. Mr. Phillips is the President and Chief Executive Officer of the BCR Group of Companies, a Crown corporation of the Province of British Columbia. Prior to this, Mr. Phillips was Executive Vice President, Business Development and Strategy with MacMillan Bloedel Limited. He is a member of the Investments Operations Committee of the Treasury Department of the Province of Alberta and the Business Advisory Council of the University of Alberta School of Business. Mr. Phillips holds degrees from the University of Alberta in chemical engineering and law.

Harry B. Wheeler

Harry B. Wheeler has over 40 years of experience in the oil and gas industry in Canada and internationally. Mr. Wheeler founded Cabre Exploration Ltd. in 1980 and was the Chairman of Cabre until December 2000. He is a Director of Enerplus Royalty Trust, Arcis Corp. and Alberta Motor Association. Mr. Wheeler is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA). He is a graduate of the University of British Columbia with a Bachelor of Science in Geology. Mr. Wheeler is a member of the Audit and Reserves Committee.

Mark D. Widney

Mark D. Widney is President and Chief Executive Officer of C-Tech Energy Services Inc., an oilfield services company listed on the CDNX, and has been an officer of Widney Industries since 1986. Mr. Widney has been active in the oil and gas industry for twenty-five years and is a director and former Chairman of the Service Rig Division of the Canadian Association of Oilfield Drilling Contractors. Mr. Widney is the chairman of the Environmental, Health and Safety Committee.

Officers

Andrew I. Burnett - Vice President, Exploration

Andy Burnett joined BelAir in October 1999. He has 26 years of experience and an established track record of exploration success in the western Canadian sedimentary basin in large and small companies. Prior to BelAir, Mr. Burnett was Vice President, Exploration with Gardiner Exploration Limited and Gardiner Oil and Gas Limited, building production in each company respectively from no production to 750 boepd and from 3,000 to 10,000 boepd. Mr. Burnett is a Professional Geologist in Alberta and holds a Master of Science in Geology from the University of Saskatchewan.

Ross O. Drysdale - Corporate Secretary

Ross O. Drysdale is a partner of McCarthy Tetrault in Calgary. He has over thirty years of experience in the legal profession and specializes in corporate, securities and business law. His practice is focused primarily on energy, corporate commercial law, public and private financings, initial public offerings and mergers and acquisitions. Prior to moving to private practice, Mr. Drysdale spent eight years working as legal counsel for two major petroleum companies in Calgary.

Mr. Drysdale is a graduate of Mount Allison University (B.A.) and the University of New Brunswick (LL.B.). Mr. Drysdale is a Member of the Bars of New Brunswick and Alberta.

Victor M. Luhowy - President and Chief Executive Officer

Vic Luhowy has over thirty years of experience in the oil and natural gas industry in western Canada. Mr. Luhowy has been President and Chief Executive Officer of BelAir since its inception in 1997. Prior to 1997, he was Senior Vice President and Chief Operating Officer of ELAN Energy Inc., a publicly traded oil and natural gas company. Prior to joining ELAN in 1990, Mr. Luhowy held executive positions with intermediate oil and natural gas producers based in western Canada. Mr. Luhowy is currently a director of Blackrock Ventures Inc., a publicly traded oil company and is a member of the Board of Governors of the Candadian Association of Petroleum Producers (CAPP). Mr. Luhowy is a Professional Engineer of Alberta and has a Bachelor of Science in Mechanical Engineering from the University of Alberta and received a Master of Business Administration degree from the University of Calgary.

Kenneth D. MacRitchie - Vice President, Finance and Chief Financial Officer

Ken MacRitchie has 22 years of experience in the oil and natural gas industry, primarily in oil and gas financing. Mr. MacRitchie has been Vice President, Finance and Chief Financial Officer of BelAir since its inception in 1997. Prior to 1997, he was an executive officer for two years with Equis Energy Corporation, a junior oil and natural gas company listed on the TSE and ASE. Mr. MacRitchie has also had fourteen years of experience with three banks that specialized in oil and gas financing in western Canada. Mr. MacRitchie holds a Bachelor of Arts, Honours degree from York University and a Master of Business Administration degree from Dalhousie University.

Kurt D. Miles - Vice President , Land

Kurt Miles joined BelAir in October 2000. He has 25 years of experience in the oil and gas industry. Before joining BelAir, Mr. Miles was Vice President, Land and Contracts with Pursuit Resources Corp. Prior to this, Mr. Miles was employed by Encor Energy Corporation from 1987 to 1993 as Division Landman and progressed to manager of a multi-disciplinary resource development team. Mr. Miles holds a B.Sc. from the University of Calgary and is a member of the Canadian Association of Petroleum Landmen.

Kenneth T. A. Skea - Vice President, Production

Ken Skea has been with BelAir since June 1999 and has 25 years of experience in the western Canadian sedimentary basin, with both large and small companies. Prior to BelAir, Mr. Skea was Vice President, Engineering with Saxon Petroleum Inc. for five years where production increased from 300 boepd to 3,400 boepd. Mr. Skea spent ten years with private junior oil and gas companies with increasing responsibility rising from Manager, Engineering at Mont Resources Limited to Vice President, Development with Glencrest Energy Ltd. Mr. Skea is a Professional Engineer in Alberta and has a Bachelor of Science in Mechanical Engineering from the University of Saskatchewan.

Wayne R. Wilson - Vice President, Corporate Development

Wayne Wilson has been with BelAir since 1997. Mr. Wilson has 31 years of finance, administration and accounting experience in the oil and gas industry. Prior to BelAir, Mr. Wilson was Vice President, Finance of Equis Energy Corp., a junior oil and gas company after working 10 years with CN Exploration Inc, a private oil and gas company, where he advanced to General Manager, Finance and Administration. Mr. Wilson worked 13 years with Unocal Oil Company of Canada, a public oil and gas company, where he earned his Certified General Accounting (CGA) designation and rose to the position of Manager, Corporate Accounts. Mr. Wilson has a Master of Business Administration degree from Athabasca University.

Five Year Statistical Summary

Financial

(in $ millions, except per share) Year ended December 31	2001	2000	1999	1998	1997
Petroleum and Natural Gas Sales	31.2	23.6	8.9	3.7	0.5
Cash Flow from Operations	13.6	12.3	3.2	0.7	0.1
Per Share - Basic	0.89	1.13	0.53	0.24	0.24
Per Share - Diluted	0.86	1.12	0.48	0.20	0.19
Net Income	3.3	4.7	1.0	(3.1)	(0.1)
Per Share - Basic	0.21	0.44	0.17	(1.00)	(0.10)
Per Share - Diluted	0.21	0.43	0.15	(0.85)	(0.09)
Net Capital Expenditures	70.2	33.6	4.0	12.4	6.4
Total Assets	118.4	55.3	19.3	16.1	8.3
Working Capital Surplus (Deficiency)	(0.5)	(0.5)	0.1	(0.9)	(1.2)
Long Term Debt	30.5	10.5	3.8	3.7	0.6
Shareholders' Equity	55.6	26.2	11.7	9.4	6.0

Operating

	2001	2000	1999	1998	1997
Production					
Natural Gas (Mcf/d)	12,198	7,687	3,632	2,462	449
Oil (bpd)	282	382	525	219	9
Natural Gas Liquids (bpd)	177	115	72	72	10
Total (boepd, 6:1)	2,492	1,778	1,202	701	95
Pricing					
Natural Gas ($/Mcf)	5.77	5.86	2.76	1.97	2.05
Oil ($/bbl)	33.07	39.38	25.26	19.30	16.28
Natural Gas Liquids ($/bbl)	32.58	38.48	17.97	13.48	23.16
Total ($/boe)	34.29	36.27	20.43	14.34	13.89
Proven plus Probable Reserves					
Natural Gas (Bcf)	66.5	50.1	16.4	13.3	6.8
Crude Oil and NGLs (Mstb)	2,423	1,250	1,343	1,375	453
Total (Mboe)	13,511	9,600	4,083	3,585	1,582
Net Present Value ($ millions discounted at 10%, before income taxes)	116.5	103.8	23.8	16.6	8.8
Net Present Value ($ millions discounted at 15%, before income taxes)	94.8	98.3	20.5	13.8	7.3

Undeveloped Land (in 000's of acres)	2001	2000	1999	1998	1997
Gross Acres	386.2	288.3	170.2	211.6	64.9
Net Acres	186.1	139.4	76.5	103.6	19.3
Average Working Interest	48%	48%	45%	49%	30%

Common Share Information

	2001	2000	1999	1998	1997
Share Price ($/share)					
High	4.96	2.55	2.24	4.80	6.08
Low	1.65	1.13	1.15	1.04	2.64
Close	1.86	2.45	1.50	1.76	4.40
Volume Traded (in millions)	7.5	4.8	1.2	0.4	0.7
Shares Outstanding at Year End (in millions)					
Basic	26.6	14.3	7.1	5.9	2.2
Diluted	29.5	16.4	7.7	6.5	2.9
Weighted Average Shares Outstanding for the Period (in millions)					
Basic	15.4	10.8	5.9	3.1	0.5
Diluted	15.8	11.0	6.6	3.7	0.6
Market Capitalization					
at years end (in $ millions)	49.5	35.1	10.6	10.4	9.6

2001 Share Price Analysis

relative index value

Contact BelAir Energy Corporation

Shannon Dinzey: Receptionist

If you have any questions, or require further information regarding BelAir Energy Corporation, please contact us directly by telephone or through the internet:

BelAir Energy Corporation

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2001 BelAir Annual Report Survey/Information Request

1. Did this annual report help you to better understand our business, strategy and future potential? ☐ Yes ☐ No
2. How did you first learn of BelAir Energy Corporation as a possible investment? ☐ Internet ☐ Broker ☐ Friend ☐ Other

   If other, please explain: ____________________
3. Do you access our Web site www.belairenergy.com for frequent updates? ☐ Yes ☐ No
4. How often do you use the Web site? ☐ 1-2 times a week ☐ 1-2 times a month ☐ 1-10 times in total visits ☐ Never
5. Have you seen the Corporate Presentation? ☐ Yes ☐ No
6. Please check the box that best describes you: ☐ I am a registered BelAir shareholder (I have the certificates)

   ☐ I am a non-registered BelAir shareholder (My broker/bank has the certificates) (Please see card below)

   ☐ I am an analyst ☐ I am a portfolio manager ☐ I am a potential shareholder ☐ Other____________________
7. If you would like to receive supplemental information, please indicate which information is of interest and provide your contact information.

   ☐ Annual and Quarterly Reports ☐ News Releases ☐ Annual & Quarterly Reports & News Releases ☐ Please remove me form your contact/distribution list

   Name: ____________________ Company: ____________________

   Address: ____________________ City: ____________ Prov/State: __________ Country: __________

   Postal Code/Zip Code: ____________ Phone: ____________ Fax: ____________ E-mail: ____________

The most efficient and inexpensive way to send our news releases and other updates is by fax or e-mail.

If you would like to receive this material please provide your information below. I would prefer to receive news releases via: ☐ e-mail ☐ fax

To submit additional comments electronically, please visit our Web site at www.belairenergy.com or send an email to invest@belairenergy.com

To Non-Registered Shareholders

National Policy Statement No. 41/Shareholder Communication provides non-registered shareholders with the opportunity to elect annually to have their names added to the Supplemental Mailing List in order to receive interim financial statements of BelAir Energy Corporation. If you are interested in receiving such statements or other selective shareholder communications, please complete and return this form. (Please print).

Name: ____________________ Company: ____________________

Address: ____________________ City: ____________ Prov/State: __________ Country: __________

Postal Code/Zip Code: ____________ Phone: ____________ Fax: ____________ E-mail: ____________

I would like to receive the following supplemental information:

☐ Annual & Quarterly Reports ☐ News Releases (via fax or e-mail)

I certify that I am a non-registered owner of securities in the capital of BelAir Energy Corporation and request to be place on the Supplemental Mailing List of BelAir Energy Corporation for its interim financial statements.

Signature: ____________________

RMATION

ENERGY CORPORATION

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